

Message Text

CONFIDENTIAL

PAGE 01 STATE 115138

11

ORIGIN EB-11

INFO OCT-01 EUR-25 ISO-00 AEC-11 AID-20 CEA-02 CIAE-00

CIEP-02 COME-00 DODE-00 FEA-02 FPC-01 H-03 INR-10

INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01

SCI-06 SP-03 SS-20 STR-08 TRSE-00 PA-04 PRS-01

USIA-15 /173 R

DRAFTED BY EB;ORF:FSE:LRRAICHT:LED

APPROVED BY EB - MR. JULIUS L. KATZ

EB/ORF/FSE - MR. BENNSKY

EUR/CAN - MR. SMITH

TREASURY - MR. BENNETT

FEA - MR. MALIN

S/PRS - MR. PERNICK

----- 112411

P 312255Z MAY 74

FM SECSTATE WASHDC

TO AMEMBASSY OTTAWA PRIORITY

C O N F I D E N T I A L STATE 115138

E.O. 11652: GDS

TAGS:ENRG

SUBJECT:CANADIAN CRUDE OIL EXPORT TAX

REF: OTTAWA 1480

1. EMBASSY IS REQUESTED TO DELIVER FOLLOWING NOTE TO DEPARTMENT OF EXTERNAL AFFAIRS AT EARLIEST OPPORTUNITY JUNE 3. DEPARTMENT PLANS PROVIDE COPY OF NOTE TO CANADIAN EMBASSY EARLY NEXT WEEK AND REITERATE OUR CONCERN OVER GOC FAILURE TO CONSULT WITH US ON THEIR LATEST EXPORT TAX INCREASE.

2. PRESS GUIDANCE: DEPARTMENT DOES NOT PLAN TO ANNOUNCE THAT REPRESENTATION MADE TO GOC BUT WILL CONFIRM THAT IT CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 115138

HAS DONE SO WITHOUT FURTHER COMMENT IF PRESS INQUIRIES

ARE RECEIVED.

3. TEXT OF NOTE FOLLOWS: QUOTE

THE EMBASSY OF THE UNITED STATES OF AMERICA PRESENTS ITS COMPLIMENTS TO THE DEPARTMENT OF EXTERNAL AFFAIRS AND REFERS TO THE RECENT ANNOUNCEMENT BY THE GOVERNMENT OF CANADA THAT THE EXPORT CHARGE ON CRUDE OIL WILL BE INCREASED FROM THE EXISTING LEVEL OF \$4.00 TO \$5.20 PER BARREL ON JUNE 1, 1974.

AT THE TIME OF ITS IMPOSITION, THE EXPORT TAX WAS DESCRIBED BY THE GOVERNMENT OF CANADA AS AN EFFORT TO PROTECT ITS DOMESTIC CONSUMERS FROM THE INFLATIONARY EFFECTS OF RAPID INCREASES IN THE PRICE OF CRUDE OIL ON WORLD MARKETS AND ESPECIALLY FROM RISING PRICES IN THE U.S. THE TAX RESULTED IN A TWO-TIER MARKET FOR CRUDE OIL IN CANADA, WITH ONE PRICE IN EFFECT FOR CANADIAN CONSUMERS AND A HIGHER PRICE APPLIED TO EXPORTS. THE SIZE OF THE EXPORT TAX WAS BASED ON THE DIFFERENCE BETWEEN THE FROZEN DOMESTIC CANADIAN PRICE FOR CRUDE OIL AND THE PRICE IN THE UNITED STATES OF OTHER IMPORTED OIL. IT WAS REPORTEDLY DESIGNED TO ENSURE THAT CANADA RECEIVED THE FULL BENEFIT OF THE "OPPORTUNITY COST" FOR ITS RESOURCES. IT ALSO APPEARED, WHEN THE TAX WAS FIRST IMPOSED, THAT IT WOULD NOT BE USED AS A REVENUE MEASURE.

THE UNITED STATES GOVERNMENT HAS INDICATED ON SEVERAL OCCASIONS ITS CONCERN OVER THE NATURE OF THIS TAX, AND OVER ITS EFFECT OF SUBSIDIZING CANADIAN INDUSTRY AT THE EXPENSE OF COMPETING INDUSTRY IN THE UNITED STATES. THE RECENTLY ANNOUNCED INTENTION OF THE CANADIAN GOVERNMENT FURTHER TO INCREASE THE TAX ON JUNE 1 HAS DEEPENED OUR EARLIER CONCERNS. THE BASIS FOR THE EXPORT TAX SEEMS TO HAVE CHANGED, SO THAT IT IS NO LONGER BASED ON THE PRICE U.S. IMPORTERS PAY FOR OIL FROM ALTERNATIVE SOURCES. MOREOVER, JUDGING FROM A RECENT STATEMENT ATTRIBUTED TO MINISTER MACDONALD THAT USE OF THE TAX "WILL DEPEND ON THE FISCAL SITUATION," THE TAX WOULD APPEAR TO HAVE BECOME CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 115138

A REVENUE MEASURE. THUS THE CANADIAN GOVERNMENT'S COMMITMENT TO SUBSIDIZE EASTERN CANADIAN CONSUMERS TO THE EXTENT THAT THE WORLD PRICE FOR CRUDE OIL IS ABOVE THE AGREED DOMESTIC PRICE LEVEL NOW APPEARS TO BE BASED ON ITS EXPECTATION OF SUBSTANTIAL REVENUES FROM THE EXPORT TAX. IN EFFECT, THEN, U.S. IMPORTERS OF CANADIAN CRUDE OIL WOULD BE PAYING THIS SUBSIDY. FURTHERMORE, ACCORDING TO A RESPECTED TRADE PUBLICATION THE POLICY

HAS ALREADY RESULTED IN LOWERING THE SUBSIDIZED PRICE OF IMPORTED OIL TO A LEVEL BELOW THAT OF CANADIAN CRUDE DELIVERED TO EASTERN CANADA.

THE UNITED STATES GOVERNMENT IS ALSO CONCERNED THAT THE NEW TAX LEVEL IS LIKELY TO ENCOURAGE HIGHER PRICES IN WORLD MARKETS AND PARTICULARLY IN SALES TO CANADA, WITH INFLATIONARY EFFECTS ACROSS OUR TWO ECONOMIES AND IN THE REST OF THE WORLD.

IN VIEW OF OUR LONG HISTORY OF USEFUL CONSULTATIONS ON ENERGY MATTERS OF MUTUAL INTEREST, WE ARE CONFIDENT THAT CANADA WISHES TO TAKE ACCOUNT OF UNITED STATES CONCERNS. IN THIS SPIRIT, AND IN THE LIGHT OF THE CONCERNS EXPRESSED ABOVE, WE URGE THE CANADIAN GOVERNMENT TO RECONSIDER ITS NEW OIL EXPORT TAX POLICY; AND THAT IT SEEK TO AVOID ACTIONS WHICH WILL ENCOURAGE OIL SUPPLIERS TO INCREASE OIL PRICES FURTHER TO THE DETRIMENT OF THE INTERNATIONAL ECONOMY. END QUOTE. KISSINGER

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, EXPORTS, TRADE PROMOTION, PRICES, OFFSET PAYMENTS, TAXES, THE PRESS
Control Number: n/a
Copy: SINGLE
Draft Date: 31 MAY 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974STATE115138
Document Source: CORE
Document Unique ID: 00
Drafter: FSE:LRRAICHT:LED
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740138-0905
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t1974051/aaaaaari.tel
Line Count: 134
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: OTTAWA 1480
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 15 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15 APR 2002 by kelleyw0>; APPROVED <29 JUL 2002 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ANADIAN CRUDE OIL EXPORT TAX
TAGS: ENRG, ECON, CA, US
To: OTTAWA
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005